



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

May 11, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Villisca, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported ten findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, a lack of monthly bank reconciliations, a lack of review and approval of journal entries, disbursements exceeding budgeted amounts, a deficit balance in the Special Revenue, Employee Benefits Fund, an excess balance in the tax increment financing fund and noncompliance with the sewer revenue bond resolution. Sand provided the City with recommendations to address each of the findings.

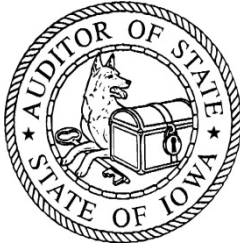
All ten findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF VILLISCA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Villisca



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Rob Sand
Auditor of State

April 22, 2020

Officials of the City of Villisca
Villisca, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Villisca, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Villisca throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and a long, sweeping "S".

Rob Sand
Auditor of State

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City of Villisca

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marilyn Halda	Mayor	Jan 2020
Lee Haidsiak	Council Member	Jan 2020
Helen Lowe	Council Member	Jan 2020
Marsha Shepherd	Council Member	Jan 2020
Duane Casey	Council Member	Jan 2022
Curtis Gaunt	Council Member	Jan 2022
Kadee Myers	City Clerk	Indefinite
Cindy Whaley	Deputy City Clerk	Indefinite
Jim Varley	Attorney	Indefinite



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Villisca for the period July 1, 2018 through June 30, 2019 including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Villisca's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and to determine whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Villisca during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ernest H. Ruben, Jr., CPA
Director

April 22, 2020

Detailed Findings and Recommendations

City of Villisca

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling and recording.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, recording and depositing.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Debt – recording, compliance and debt payment processing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The fund balances in the City's general ledger were not reconciled to bank and investment balances throughout the year. For the month observed, June 2019, the bank and investment account balances reconciled to the general ledger.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger balances monthly and variances, if any, are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

- (C) Journal Entries – Journal entries were not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

- (D) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Villisca

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) to contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The receipts, disbursements and beginning and ending fund balances included in the City’s 2019 AFR do not agree to the City’s records. The ending fund balance was overstated by \$324 in comparison to the reconciled bank balance.

Recommendation – The City should establish procedures to ensure amounts reported in the AFR agree to the City’s records.

- (F) Deficit Balance – The Special Revenue, Employee Benefits Fund had a deficit balance of \$53,601 at June 30, 2019.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (G) Annual Urban Renewal Report – The City understated the amount reported as TIF debt outstanding on the Annual Urban Renewal Report (AURR) Levy Authority Summary. The City reported a zero balance for TIF debt outstanding on the AURR, however, the City has a developer agreement representing a \$150,000 obligation. Also, the AURR report was not certified to the Iowa Department of Management on or before December 1.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with City records. Also, the City should file the AURR timely.

- (H) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has certified and certifiable tax increment financing (TIF) debt outstanding at June 30, 2019 totaling \$150,000 as part of a developer agreement. The City certified and received \$57,056 in TIF receipts during the year, but made no payments under the agreement, leaving a balance in the TIF fund at June 30, 2019 totaling \$106,483. According to the City, the developer sold the property referenced in the developer agreement. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

City of Villisca

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including whether the \$106,483 of TIF collections accumulated pursuant to the developer agreement should be paid to the developer. Remaining TIF receipts should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa and the outstanding certified debt not yet collected on the developer agreement should be decertified.

- (I) Petty Cash – Surprise independent counts of the petty cash are not performed.

Recommendation – Surprise independent counts should be performed periodically to ensure the accuracy of the petty cash.

- (J) Revenue Bonds – The following instance of non-compliance with the sewer revenue bond requirements was noted:

The provisions of the sewer revenue bond resolution require the City produce net revenue equal to at least 110% of the principal and interest coming due in each fiscal year. The City's fiscal 2019 net sewer receipts of \$100,134 were less than 110% of the \$93,069 of sewer revenue bond principal and interest due during fiscal year 2019.

Recommendation – The City should consult legal counsel and review the City's sewer rate structure to ensure the rates are adequate to produce the required net operating receipts.

City of Villisca

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Jon G. Hanson, Staff Auditor